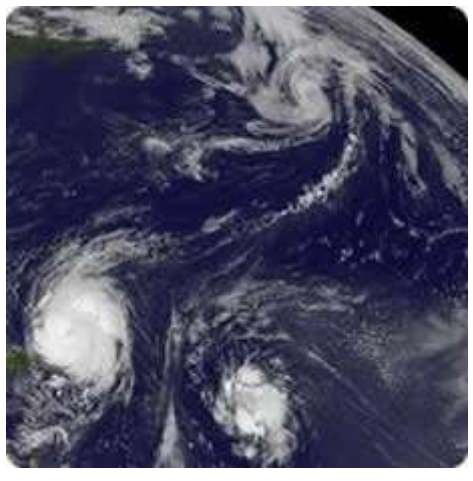
Forecasting extremes for insurance



1 July 2011 - The increasing importance of long-term forecasting for insurance and reinsurance firms is outlined in a joint Lloyd's and Met Office report published online this week.

Written by Matt Huddleston, Principal Consultant at the Met Office, the report examines the issues that the changing climate poses for managing exposure to weather-related risk.

In 2010, about $27 billion of insured loss was recorded by firms around the world due to floods, storms, drought, and other extreme weather.*

Traditionally insurance and reinsurance companies have managed their exposure to this type of risk by basing decisions on records of past events.

However, there is growing evidence that suggests changes in our climate are increasing the frequency of extreme weather events - and this may mean that past data is less reliable as the only guide to the future.

Dr Huddleston said: "Recent advances in research and improved technology suggest some phenomena can be forecast months or even further in advance, such as tropical storms in the Atlantic - an area of forecasting where the Met Office has seen improving levels of accuracy over the past few years."

While it is impossible to forecast with certainty at seasonal timescales, the range of outcomes from forecasts are becoming more accurate and are therefore becoming more relevant for decision making in the insurance industry.

Dr Huddleston continued: "Insurance is one of the main tools that businesses and communities have to protect themselves from catastrophic events and build resilience. This report shows that the insurance industry may increasingly benefit from the use of long-range predictions - especially in a changing climate where the past may not represent the future".

Trevor Maynard, Head of Exposure Management at Lloyd's, said: "Long-range forecasting methods and techniques should help risk experts and modellers refine their modelling practices and will play a growing role in the insurance market, particularly as the impacts of climate change are increasingly felt."

The full report is called 'Forecasting risk: the value of long-range forecasting for the insurance industry' and can be read online on the Lloyd's website .

* Sigma (Swiss Re), Natural catastrophes and man-made disasters in 2010: a year of devastating and costly events

Met Office wins Lloyd's Science of Risk Prize

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